

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA  
KEOSAUQUA, IOWA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2015

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

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JUNE 30, 2015

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KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

OFFICIALS  
JUNE 30, 2015

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Sam Polonsky	Chairman	December 31, 2016
Barbara Morris	Member	December 31, 2020
Jay Goldstein	Member	December 31, 2018

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, as of June 30, 2015, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 4 to the financial statements, Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the utility's proportionate share of the net pension liability and the schedule of utility contributions on pages 4 through 7 and 22 through 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2015, on our consideration of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's internal control over financial reporting and compliance.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
December 21, 2015

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### FINANCIAL HIGHLIGHTS

The Utility's operating revenues decreased 1.0% or \$15,200, from fiscal year 2014 to fiscal year 2015. Decreases in revenue from the sale of electricity accounted for the majority of this decrease.

The Utility's operating expenses increased .6% or \$8,693, from fiscal year 2014 to fiscal year 2015. This increase in operating expenses is due primarily to an increase in community betterment expenses in the current year.

The Utility's net position decreased 1.4% or \$37,130, from fiscal year 2014 to fiscal year 2015.

### USING THIS ANNUAL REPORT

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, operates as a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis is intended to serve as an introduction to Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The Statement of Net Position presents information on the Utility's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with the Utility's proportionate share of the net pension liability and related contributions.

## REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

### The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Utility's finances is, "Is the Utility as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Utility's resources and its activities in a way which helps answer this question. These statements include all assets, all deferred outflows of resources, all liabilities and all deferred inflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net position, which is the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources as one way to measure the Utility's financial health or financial position. Over time, increases or decreases in the Utility's net position are one indicator of whether its financial position is improving or deteriorating.

### The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

## FINANCIAL ANALYSIS OF THE UTILITY

### Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Utility's financial position. The Utility's net position at June 30, 2015 totaled \$2,686,306. This compares to \$2,813,474 as of June 30, 2014. A summary of the Utility's net position as of June 30, 2015 and 2014 is presented below.

#### STATEMENTS OF NET POSITION

	<u>2015</u>	<u>June 30,</u> <u>2014,</u> <u>not restated</u>
Current assets	\$ 515,586	\$ 804,794
Capital assets at cost, less accumulated depreciation	2,383,732	2,106,258
Other assets	25,000	25,000
Total assets	<u>2,924,318</u>	<u>2,936,052</u>
Deferred outflows of resources	<u>23,292</u>	<u>-</u>
Liabilities	<u>231,182</u>	<u>122,578</u>
Deferred inflows of resources	<u>30,122</u>	<u>-</u>
Net investment in capital assets	2,383,782	2,106,258
Unrestricted	302,524	707,216
Total net position	\$ <u>2,686,306</u>	\$ <u>2,813,474</u>

11.3% of the Utility's net position are unrestricted and can be used to meet the Utility's obligations as they come due.

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$90,038 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

## Statements of Revenues, Expenses and Changes in Net Position

Operating revenues are received from the sale of electricity to the residents and business owners of the City of Keosauqua, Iowa. Operating expenses are expenses paid to run the Utility. Non-operating revenues and expenses include interest income. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014 is presented below:

### REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>Year ended June 30,</u>	
	<u>2015</u>	<u>2014,</u> <u>not restated</u>
Operating revenue:		
Sale of electricity	\$ 1,436,228	\$ 1,444,473
Late payment charges	1,693	2,466
Miscellaneous income	<u>24,105</u>	<u>30,287</u>
Total operating revenue	<u>1,462,026</u>	<u>1,477,226</u>
Operating expenses:		
Purchase of power	1,072,663	1,087,257
Salaries	130,430	130,693
Social security and medicare	9,709	10,164
IPERS	7,576	11,637
Group insurance	26,633	38,896
Medical reimbursement	2,970	4,584
Line maintenance	12,630	19,069
Meter expense	3,666	12,561
Property and liability insurance	8,007	6,904
Truck expenses	5,088	4,294
Utilities	4,717	5,416
Travel expense	1,767	483
Repairs and maintenance	2,445	2,464
Bookkeeping	13,063	12,911
Legal and accounting	8,475	8,505
Office supplies	5,175	4,841
Trustee fees	408	408
Association dues and assessments	8,951	9,864
Miscellaneous	3,484	2,813
Community betterment	50,300	900
Depreciation	113,035	102,560
Employee education	1,772	-
Energy efficiency	<u>6,902</u>	<u>13,949</u>
Total operating expenses	<u>1,499,866</u>	<u>1,491,173</u>
Operating loss	(37,840)	(13,947)
Non-operating revenues:		
Interest income	<u>710</u>	<u>1,354</u>
Change in net position	(37,130)	(12,593)
Net position - Beginning of year, as restated	<u>2,723,436</u>	<u>2,826,067</u>
Net position - End of year	\$ <u>2,686,306</u>	\$ <u>2,813,474</u>

The Statement of Revenues, Expenses and Changes in Net Position reflects a negative year with a decrease in the net position at the end of the fiscal year.

In fiscal year 2015, operating revenues decreased 1.0% or \$15,200, primarily due to a decrease in the amount of electricity sold to customers. Operating expenses increased .6% or \$8,693, primarily due to an increase in community betterment expenses in the current year.



## **CAPITAL ASSETS**

At June 30, 2015, the Utility had \$2,383,732 invested in capital assets, net of accumulated depreciation of \$1,399,116. Depreciation charges totaled \$113,035 for fiscal year 2015. More detailed information about the Utility's capital assets is presented in Note 3 to the Financial Statements.

## **ECONOMIC FACTORS**

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, continued to improve its financial position during the current fiscal year. However, the current condition of the economy in the State continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

The Utility's distribution system requires constant maintenance and upkeep.

Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current fiscal year will be much like the last and we will maintain a close watch over resources to maintain our ability to react to unknown issues.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Keosauqua Municipal Light and Power, P.O. Box 216, Keosauqua, Iowa.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF NET POSITION

JUNE 30, 2015

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 383,402
Accounts receivable	125,269
Prepaid insurance	6,915
Total current assets	<u>515,586</u>

NON-CURRENT ASSETS:

Property and Equipment:

Land	3,423
Buildings	83,040
Distribution system	3,368,111
Equipment and vehicles	328,274
Total	3,782,848
Less accumulated depreciation	1,399,116
Book value of property and equipment	<u>2,383,732</u>

Other Assets:

Notes receivable	25,000
Total non-current assets	<u>2,408,732</u>

TOTAL ASSETS 2,924,318

DEFERRED OUTFLOWS OF RESOURCES:

Pension related deferred outflows	<u>23,292</u>
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LIABILITIES AND NET POSITION

LIABILITIES:

Accounts payable	128,909
Accrued payroll taxes	6,011
Accrued sales tax	2,174
Customer meter deposits	10,423
Long-term liabilities:	
Portion due or payable within one year:	
Compensated absences	4,682
Portion due or payable after one year:	
Net pension liability	78,983

TOTAL LIABILITIES 231,182

DEFERRED INFLOWS OF RESOURCES:

Pension related deferred inflows	<u>30,122</u>
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NET POSITION:

Net Investment in capital assets	2,383,782
Unrestricted	<u>302,524</u>

TOTAL NET POSITION \$ 2,686,306

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED JUNE 30, 2015

OPERATING REVENUE:

Sale of electricity	\$ 1,436,228
Late payment charges	1,693
Miscellaneous income	24,105
Total operating revenue	<u>1,462,026</u>

OPERATING EXPENSES:

Purchase of power	1,072,663
Salaries	130,430
Social security and medicare	9,709
IPERS	7,576
Group insurance	26,633
Medical reimbursement	2,970
Line maintenance	12,630
Meter expense	3,666
Property and liability insurance	8,007
Truck expenses	5,088
Utilities	4,717
Travel expense	1,767
Repairs and maintenance	2,445
Bookkeeping	13,063
Legal and accounting	8,475
Office supplies	5,175
Trustee fees	408
Association dues and assessments	8,951
Miscellaneous	3,484
Community betterment	50,300
Depreciation	113,035
Employee education	1,772
Energy efficiency	6,902
Total operating expenses	<u>1,499,866</u>

OPERATING LOSS (37,840)

NONOPERATING REVENUE:

Interest income	<u>710</u>
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CHANGE IN NET POSITION (37,130)

NET POSITION - BEGINNING OF YEAR, AS RESTATED 2,723,436

NET POSITION - END OF YEAR \$ 2,686,306

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 1,453,047
Cash received from other operating receipts	24,105
Cash paid to suppliers for goods and services	(1,182,884)
Cash paid for personal services	<u>(182,927)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>111,341</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of property and equipment	<u>(390,509)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Interest on investments	747
Proceeds from certificates of deposit	<u>131,237</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>131,984</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (147,184)

CASH AND CASH EQUIVALENTS - Beginning of year 530,586

CASH AND CASH EQUIVALENTS - End of year \$ 383,402

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES:

Operating loss	\$ (37,840)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	113,035
Change in assets and liabilities:	
Decrease in accounts receivable	13,947
Increase in prepaid insurance	(3,197)
Increase in deferred outflows of resources	(11,655)
Increase in accounts payable	29,763
Increase in accrued payroll taxes	339
Increase in accrued sales tax	63
Increase in customer meter deposits	1,179
Decrease in compensated absences	(1,723)
Increase in deferred inflows of resources	30,122
Decrease in net pension liability	<u>(22,692)</u>
Total adjustments	<u>149,181</u>

NET CASH PROVIDED BY OPERATING ACTIVITIES \$ 111,341

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, is an electrical utility plant located in the City of Keosauqua, Iowa. The Utility purchases all of its power from the Southern Iowa Electric Co-op. It sells its services to the citizens, businesses and the City of Keosauqua, Iowa.

The financial statements of the Utility are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

Reporting Entity

For financial reporting purposes, Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utility. Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, has no component units which meet the Governmental Accounting Standards Board criteria.

Keosauqua Municipal Light and Power is presented as a Component Unit in the City of Keosauqua, Iowa's financial statements. The Utility is a legally separate entity from the City, but is financially accountable to the City. The Utility is governed by a three-member Board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Basis of Presentation

The accounts of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Cash Equivalents – The Utility considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than six months.

Accounts Receivable – The Utility grants credit to customers, substantially all of whom are located in Keosauqua, Iowa. The risk of loss on the accounts receivable is the balance due at the time of default. Accounts receivable are considered past due after 30 days and are charged off when management determines the account is uncollectible. Bad debts are charged to operations in the year in which the account is determined uncollectible. If the reserve method of accounting for uncollectible accounts were used, it would not have a material effect on the financial statements.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Utility as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

<u>Asset Class</u>	<u>Amount</u>
Buildings	\$ 2,500
Distribution system	2,500
Equipment and vehicles	2,500

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position (Continued)

Capital assets of the Utility are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	15-25
Distribution system	30-40
Equipment and vehicles	5-10

Compensated Absences – Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at June 30, 2015.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 2 – CASH AND CASH EQUIVALENTS

Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa's, deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Utility Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk – The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the utility.

NOTE 3 – CAPITAL ASSETS

A summary of capital assets at June 30, 2015 is as follows:

	<u>Balance</u> <u>June 30, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 3,423	\$ -	\$ -	\$ 3,423
Capital assets, being depreciated:				
Buildings	83,040	-	-	83,040
Distribution system	3,115,916	252,195	-	3,368,111
Equipment and vehicles	189,960	138,314	-	328,274
Total capital assets being depreciated	<u>3,388,916</u>	<u>390,509</u>	<u>-</u>	<u>3,779,425</u>
Less accumulated depreciation for:				
Buildings	72,483	1,215	-	73,698
Distribution system	1,037,191	99,192	-	1,136,383
Equipment and vehicles	176,407	12,628	-	189,035
Total accumulated depreciation	<u>1,286,081</u>	<u>113,035</u>	<u>-</u>	<u>1,399,116</u>
Total capital assets being depreciated, net	<u>2,102,835</u>	<u>277,474</u>	<u>-</u>	<u>2,380,309</u>
Total capital assets, net	\$ <u>2,106,258</u>	\$ <u>277,474</u>	\$ <u>-</u>	\$ <u>2,383,732</u>



KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 4 – PENSION PLAN

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 4 – PENSION PLAN (Continued)

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's contributions to IPERS for the year ended June 30, 2015 were \$11,801.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Utility reported a liability of \$78,983 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Utility's proportion was .001952 percent, which was an increase of .000156 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Utility recognized pension expense of \$7,576. At June 30, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 858	\$ -
Changes of assumptions	3,486	-
Net difference between projected and actual earnings on pension plan investments	-	30,122
Changes in proportion and differences between Utility contributions and proportionate share of contributions	7,147	-
Utility contributions subsequent to the measurement date	<u>11,801</u>	<u>-</u>
Total	\$ <u>23,292</u>	\$ <u>30,122</u>

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 4 – PENSION PLAN (Continued)

\$11,801 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>		
2016	\$	(4,846)
2017		(4,846)
2018		(4,846)
2019		(4,846)
2020		<u>753</u>
	\$	<u>(18,631)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 4 – PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23 %	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u>100</u> %	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
County's proportionate share of the net pension liability	\$ 149,236	\$ 78,983	\$ 19,682

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 4 – PENSION PLAN (Continued)

Payables to the Pension Plan – At June 30, 2015, the Utility reported payables to the defined benefit pension plan of \$943 for legally required employer contributions and \$629 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 5 – RELATED PARTY TRANSACTIONS

The Utility sells electricity to and purchases bookkeeping services and water from the City of Keosauqua, Iowa. The following is a summary of the transactions and balances as of and for the year ended June 30, 2015:

Electricity paid by the City of Keosauqua, Iowa to the Utility	\$ 17,791
Accounts receivable from the City of Keosauqua, Iowa	671
Bookkeeping expense paid by the Utility to the City of Keosauqua, Iowa	13,063
Water fees paid by the Utility to the City of Keosauqua, Iowa	570
Accounts payable due to the City of Keosauqua, Iowa	1,175

NOTE 6 – RISK MANAGEMENT

The Utility is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual casualty operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses estimated for the year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the board not to exceed 300 percent of the basis rate.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, losses and loss expenses for property risks estimated for the fiscal year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Utility's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The Utility's contributions to the Pool for the year ended June 30, 2015 were \$5,368.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 6 – RISK MANAGEMENT (Continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the Utility's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the Utility's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims and losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

The Utility does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the Utility's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The Utility also carries commercial insurance purchased from other insurers for coverage associated with workman's compensation and employee blanket bond. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 – MAJOR CUSTOMERS

Sales to three major customers were \$529,212 for the year ended June 30, 2015, representing 36.2% of the total operating revenue for the year. At June 30, 2015, amounts due from these customers included in accounts receivable were \$50,209.

NOTE 8 – MAJOR SUPPLIERS

For the year ended June 30, 2015, the Utility purchased all of its power from one supplier totaling \$1,072,663. At June 30, 2015, amounts due to this vendor included in accounts payable were \$97,939.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015

NOTE 9 – ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 2,813,474
Net pension liability at June 30, 2014	(101,675)
Deferred outflows of resources related to prior year contributions made after the June 30, 2013 measurement date	<u>11,637</u>
Net position July 1, 2014, as restated	\$ <u>2,723,436</u>

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS

The Utility has evaluated subsequent events through December 21, 2015, the date which the financial statements were available to be issued.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR\*

REQUIRED SUPPLEMENTARY INFORMATION

		<u>2015</u>
Utility's proportion of the net pension liability		0.001952 %
Utility's proportionate share of the net pension liability	\$	78,983
Utility's covered-employee payroll	\$	130,319
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll		60.61 %
Plan fiduciary net position as a percentage of the total pension liability		87.61 %

\* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the County will present information for those years for which information is available.



KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

SCHEDULE OF UTILITY CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 2 FISCAL YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 11,801	\$ 11,637
Contributions in relation to the statutorily required contribution	<u>11,801</u>	<u>11,637</u>
Contribution deficiency (excess)	\$ -	\$ -
Utility's covered-employee payroll	\$ 132,154	\$ 130,319
Contributions as a percentage of covered-employee payroll	8.93 %	8.93

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten-year trend is compiled, the County will present information for those years for which information is available.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

*Changes of benefit terms:*

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

*Changes of assumptions:*

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED JUNE 30, 2015

*Changes of assumptions: (Continued)*

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees  
Keosauqua Municipal Light and Power  
A Component Unit of the City of Keosauqua, Iowa  
Keosauqua, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's basic financial statements and have issued our report thereon dated December 21, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item I-A-15 to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's Response to Findings**

Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's response to the findings identified in our audit is described in the accompanying schedule of findings. Keosauqua Municipal Light and Power, a Component Unit of the City of Keosauqua, Iowa's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keosauqua Municipal Light and Power, a component unit of the City of Keosauqua, Iowa, during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ANDERSON, LARKIN & CO. P.C.

Ottumwa, Iowa  
December 21, 2015

KEOSAUQUA MUNICIPAL LIGHT AND POWER  
A COMPONENT UNIT OF THE CITY OF KEOSAUQUA, IOWA

SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2015

Part I: Findings Related to the Financial Statements

Internal Control Deficiencies:

- I-A-15 Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize that segregation of duties is difficult with a limited number of office employees. However, the Utility should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – This is a continuing problem for us, but an entity the size of our Utility does not have the finances to segregate the duties as recommended. The Board of Trustees will continue to monitor operations on a monthly basis.

Conclusion – Response accepted.

Instances of Non-Compliance:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

- II-A-15 Questionable Expenses – No expenses that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-B-15 Travel Expense – No expenditures of money for travel expenses of spouses of Utility officials or employees were noted.
- II-C-15 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- II-D-15 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- II-E-15 Trustee Minutes – No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- II-F-15 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.